

Attract and Retain Military Retirees in Maryland – Do Not Leave Their Talents Behind

By Tom Jurkowsky

Maryland's new governor has spoken—a proposal that would allow the state to retain and attract military veterans to Maryland. The state legislature now needs to seize this opportunity and follow the lead of 38 other states (23 since 2018) that fully exempt military retired pay from state taxation with no age restrictions. Our neighboring states, West Virginia and Pennsylvania, have got it right. They do not tax retired military pay at all—while Maryland currently lags behind on this issue.

In his January State of the Commonwealth address, Virginia Governor Glenn Youngkin called for eliminating the tax on military retired pay, regardless of age. His proposal modifies a law passed just last year that currently exempts up to \$20,000 for retirees over 55. Even in California, the only state that fully taxes retired military pay, a bill has been introduced this year to fully exempt that pay regardless of age.

Stating that he does not want to “be a farm team for Virginia” when trying to attract military retirees to stay in Maryland, Governor Moore is proposing legislation to exempt \$25,000 of military retired pay in 2023 and then \$40,000 in 2024. Clearly, this is a positive step in the right direction, but more must be done for Maryland to be equally competitive.

The 38 states that fully exempt military retired pay from their income tax understand that it generates more revenue for them. How is this possible?

The answer is simple. Individuals who retire from active duty in the military and earn a monthly retirement pension cannot live on that stipend alone. If they have a family, living on that income is not nearly sufficient. The only way they can live is to support their military retirement by starting a second career. The income resulting from that second job is, and should be, taxable.

With that second job, a retired military person will not only pay the appropriate taxes but also spend his or her salary in a variety of ways in the community and in the state by rent or mortgage payments; grocery purchases; entertainment expenses; and vehicle purchases, to name but a few.

Military retirees bring a wealth of experience to the table. Leadership in the workplace is the central offering. One doesn't serve a career in the military without developing leadership skills. But retired military personnel also bring a range of technical skills and management expertise with them, including skills in information technology.

The Fort Meade Alliance, an independent trade group whose goal is to help drive economic growth in Maryland, says any recruiter in the Fort Meade region's technology industry will acknowledge a shortage of skilled cybersecurity workers. The Alliance says more than 20,000 cybersecurity jobs alone are vacant on any given day.

Clearly, Maryland is a great fit for retiring military personnel. The Defense Department spends more than \$26 billion in the state. In fact, Defense spending represents 5.8% of Maryland's GDP with more than 96,000 Defense Department personnel in the state. Half are in uniform and half are civilians.

Governor Moore's proposed legislation recognizes why military retirees, or even those who simply serve a minimum amount of time, choose to leave Maryland and not take advantage of the professional opportunities here. It's too expensive to live in Maryland, especially when there are other states that don't tax military retired pay.

The Tax Foundation, a tax policy research organization recently issued its 2023 State Business Tax Climate Index. It should come as no surprise that Maryland did not score well, ranking 46 out of the 50 states, with one of the worst tax climates. *The Wall Street Journal* characterized the ten lowest states as being on its tax "dishonor roll," nothing to be proud of.

Maryland's high tax rate and its high cost of living is not conducive to retiring military personnel. When faced with a decision about where to settle upon retirement, military personnel will choose another state that does not tax retired military pay and has a lower cost of living. That deprives Maryland of up to 25 years of potential tax revenue and disposable income for the state's economy. The proposed legislation will help alleviate that potential loss.

Military retirees are high-wage earners who represent the type of individuals the state needs. They would help fill some of the 6800 vacant state jobs, one of Governor Moore's top goals.

Several years ago the Towson University Regional Economic Studies Institute did a study on the financial impact of retired military service personnel on the Maryland economy. According to the study, while military retirees have access to ample employment opportunities, a key factor when deciding where to live post-retirement is the tax burden.

Both the Towson study and the recent Tax Foundation report show the real economic benefits that come from making a state more competitive for the long haul.

Governor Wes Moore's proposed legislation, if passed, will begin to allow Maryland to reap the benefits that come with creating an attractive tax environment for military retirees. More importantly, Maryland needs to move

beyond being a “farm team” and join the “big leagues” with 38 states that fully exempt military retired pay.

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